FDIC State Profile

Fall 2005

Kansas

Kansas continued a broadly-based expansion in the second quarter of 2005.

- The Kansas economy gained more than 13,000 jobs in the second quarter, contributing to a year-over-year increase of more than 35,000 jobs (see Chart 1). Total state employment reached its highest level since the third quarter of 2001. Gains occurred in all major industry sectors, except retail trade, information-related industries, and manufacturing. However, year-over-year employment growth was less than the national rate.

- The state's manufacturing sector lost nearly 1,000 jobs in the second quarter, following six consecutive quarters of modest gains. Despite restoring more than 5,000 manufacturing jobs in 2004 and 2005, the sector is still more than 28,000 jobs below its peak level reached in the fourth quarter of 1998.

- The quarterly unemployment rate declined to 5.2 percent from 5.3 percent in the first quarter, the lowest level since the fourth quarter of 2002.

- The recent hurricanes' effects on the Kansas economy appear to be modest and are centered on energy. Like other states in the region, energy prices have risen sharply, but supplies have remained adequate. Farmers face substantially higher fuel costs during the harvest season.

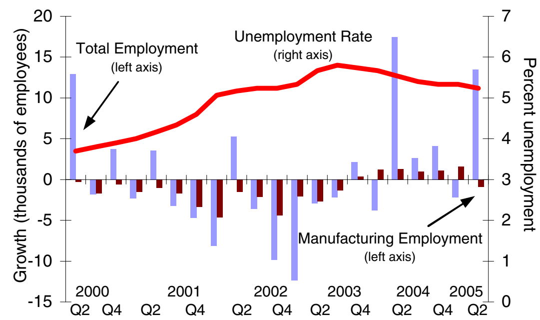
Rural counties in Kansas have relatively large concentrations of elderly people.

- Based on 2000 Census data, 63 of the 105 counties in Kansas rank in the top quarter of the nation's counties in terms of population older than 65. All but one of these counties are rural (see Map 1).

- Large concentrations of the elderly tend to be associated with rural depopulation, as 59 of the older counties lost population between 1970 and 2000. These counties typically experience the out-migration of younger people seeking educational or employment opportunities.

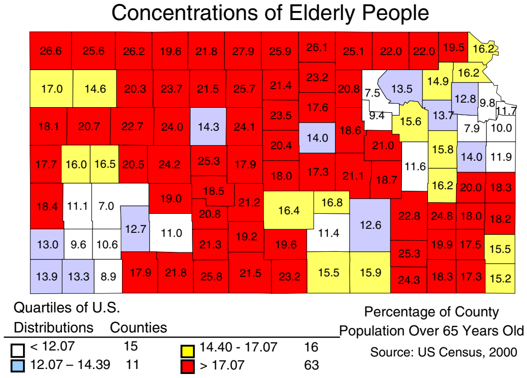
- The Census Bureau projects that by 2030, 20.2 percent of the Kansas population will be older than 65, compared with 19.7 percent for the United States.

Chart 1: Kansas Saw a Sharp Increase in Employment the Second Quarter of 2005



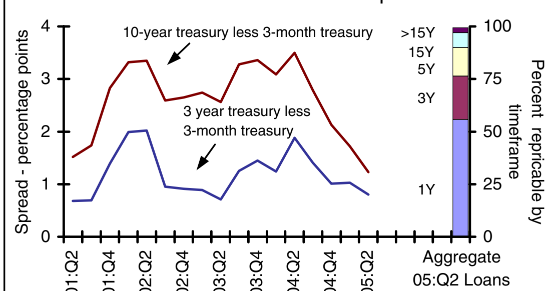
Source: Bureau of Labor Statistics/ Haver Analytics

Map1: Kansas' Rural Counties Have Significant Concentrations of Elderly People



Source: US Census, 2000

Chart 2: Kansas Loan Portfolios Closely Track the Less Volatile Short-Term Spreads



Source: Federal Reserve Board, FDIC, June 2005 bank call reports, Kansas small community banks.

Aging populations pose challenges to financial institution funding.

- Insured institutions operating in rural areas face funding challenges, especially in areas with large elderly populations. Commonly, when elderly depositors pass away, their deposits quickly move to their heirs' institutions, often located in far-away metropolitan areas.

- Partly resulting from the aging population in Kansas's rural areas, the state's rural core deposit base has grown just 34.1 percent over the past decade, compared with 52.0 percent for the nation.

- As the state's rural areas continue to grow older over the next few decades, funding may become increasingly difficult to maintain.

Bank earnings remain solid as rising short-term rates have offset moderate declines in term yield spreads.

- Earnings performance remains positive for most Kansas institutions. The median return-on-assets ratio was 1.06 percent at June 2005, slightly lower than one year ago. Only 3.3 percent of institutions were unprofitable in the first half of the year.

- The declining spread between three-month and ten-year interest rates has many national banking analysts fretting about potential net interest margin (NIM) compression. However, Kansas' small community banks do not have the long-term loan exposure that would make them highly responsive to changes in long-term rates.[1] Nearly two-thirds of community bank loans reprice within three years; therefore, margins tend to track more closely the much less volatile three-month to three-year treasury spreads (see Chart 2).

- Given the typical asset-sensitive nature of small community banks, rising short-term rates often benefit small bank margins, even when the yield curve flattens. In fact, the June 2005 median NIM in Kansas' small community banks was 8 basis points higher than a year earlier.

Asset quality continues to improve at Kansas insured institutions, and loan growth is strong.

- Delinquent loans at Kansas insured institutions have declined for two straight years, and represented just 1.37 percent of total loans in June 2005 (see Chart 3).

- Although the state has seen a recent spike in consumer bankruptcies as a result of pending bankruptcy reform enactment, the typical Kansas institution has very low consumer loan exposure, and consumer loan charge-offs historically have been negligible.

- Spurred by business investment, insured institutions are experiencing strong loan growth. Commercial real estate lending was most pronounced, growing a median 7.8 percent from one year earlier.

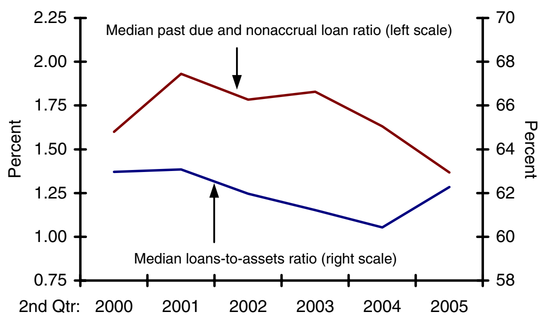
Prices for most of the state's important agricultural commodities are forecasted to decline.

- The multi-year drought that has plagued Kansas has receded from most of the state, aiding crop production.

- The 2005 wheat harvest recovered to historical norms, but greater supplies domestically and worldwide will result in lower wheat prices in the upcoming marketing year (see Table 1).

- Cattle prices will decline because of excess supply brought by a larger calf crop and the opening of the Canadian border to young cattle imports. Most foreign export markets remain closed to U.S. beef because of safety concerns with "mad cow" disease.

Chart 3: Asset Quality Continues to Improve, and Institutions Have Increased Their Lending Activity



Source: FDIC, Kansas insured institutions.

Table 1: Most Commodity Prices Are Expected to Decline in 2006

	2003	2004	Est. 2005	Forecast 2006	% of Ag Cash Receipts
Corn	2.32	2.42	2.07	2.00	8.8
Soybeans	5.53	7.34	5.80	6.00	5.6
Wheat	3.56	3.40	3.40	3.10	11.7
Cattle	84.69	84.75	85.50	79.00	59.4
Hogs	39.45	52.51	48.50	45.00	4.0
Milk	12.52	16.05	15.05	13.35	3.6

Note: Grain prices are for marketing year of each crop. Crop quantities are per bushel; livestock are per hundredweight.
Source: USDA World Agricultural Supply and Demand Estimates, August 12, 2005
USDA/Economic Research Service 2004

[1] Small community banks are defined as FDIC-insured commercial banks with less than $250 million in total assets that have been in existence at least three years. At June 30, 2005, these institutions represented 87 percent of all insured institutions in Iowa.

Kansas at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.3%	1.9%	1.0%	0.8%	-1.7%
Manufacturing (13%)	1.9%	2.6%	0.9%	1.0%	-5.0%
Other (non-manufacturing) Goods-Producing (5%)	5.5%	4.8%	1.5%	1.9%	-0.6%
Private Service-Producing (62%)	0.8%	1.5%	1.1%	0.8%	-1.5%
Government (19%)	1.3%	1.9%	0.6%	0.7%	-0.2%
Unemployment Rate (% of labor force)	5.2	5.3	5.5	5.5	5.6

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	6.5%	6.2%	6.5%	5.0%	2.8%
Single-Family Home Permits	6.8%	-1.1%	6.4%	-0.6%	11.6%
Multifamily Building Permits	70.8%	123.6%	-20.8%	-53.4%	39.4%
Existing Home Sales	4.8%	5.9%	17.7%	12.4%	8.8%
Home Price Index	5.5%	5.0%	4.9%	5.1%	3.6%
Bankruptcy Filings per 1000 people (quarterly annualized level)	7.95	5.69	6.74	5.94	5.73

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	371	372	377	372	380
Total Assets (in millions)	58,456	58,119	55,192	57,818	53,056
New Institutions (# < 3 years)	4	3	6	3	8
Subchapter S Institutions	160	161	159	157	150

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.37	1.61	1.63	1.45	1.63
ALLL/Total Loans (median %)	1.35	1.38	1.45	1.37	1.38
ALLL/Noncurrent Loans (median multiple)	2.00	1.92	1.84	2.18	2.06
Net Loan Losses / Total Loans (median %)	0.01	0.00	0.01	0.07	0.10

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.67	9.63	9.54	9.55	9.34
Return on Assets (median %)	1.10	1.04	1.05	1.00	0.97
Pretax Return on Assets (median %)	1.36	1.28	1.30	1.22	1.23
Net Interest Margin (median %)	4.06	3.94	3.91	3.96	3.97
Yield on Earning Assets (median %)	5.79	5.51	5.41	5.47	5.75
Cost of Funding Earning Assets (median %)	1.74	1.58	1.45	1.50	1.75
Provisions to Avg. Assets (median %)	0.00	0.00	0.04	0.08	0.11
Noninterest Income to Avg. Assets (median %)	0.60	0.59	0.62	0.61	0.64
Overhead to Avg. Assets (median %)	2.94	2.83	2.92	3.01	3.01

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	62.3	60.1	60.4	60.6	60.1
Noncore Funding to Assets (median %)	17.8	17.1	16.6	17.1	15.8
Long-term Assets to Assets (median %, call filers)	9.9	9.8	12.2	10.3	11.8
Brokered Deposits (number of institutions)	58	57	53	58	49
Brokered Deposits to Assets (median % for those above)	4.2	4.0	2.6	3.2	2.6

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	84.1	83.2	86.5	82.8	81.6
Commercial Real Estate	83.2	75.0	78.7	74.2	70.8
Construction & Development	10.9	10.3	9.2	10.3	10.6
Multifamily Residential Real Estate	0.4	0.2	0.1	0.0	0.0
Nonresidential Real Estate	58.1	58.3	58.3	56.6	53.9
Residential Real Estate	121.3	123.1	121.4	125.7	122.9
Consumer	41.2	40.8	45.4	41.5	47.8
Agriculture	147.5	141.4	148.7	146.0	146.1

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Kansas City, MO-KS	154	31,123	< $250 million	327 (88.1%)
Wichita, KS	59	8,062	$250 million to $1 billion	35 (9.4%)
Topeka, KS	38	4,054	$1 billion to $10 billion	9 (2.4%)
St. Joseph, MO-KS	26	1,777	> $10 billion	0 (0%)
Lawrence, KS	25	1,363		